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C O N F I D E N T I A L SECTION 01 OF 02 JEDDAH 000171

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PARIS FOR ZEYA; LONDON FOR TSOU

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TAGS: ECON EFIN KISL KWMN PGOV PREL SA SCUL EINV

SUBJECT: JEDDAH JOURNAL 6. SAUDI INVESTORS MOB BANKS, 11%
INCREASE IN JEDDAH MUNICIPAL BUDGET, AND REFORM OCCURRING
HERE AND THERE

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Classified By: Acting Consul General Hector Morales, for reasons
1.4 (b) and (d).

INVESTOR FRENZY SNARLS TRAFFIC IN JEDDAH

¶1. (C) On the evening of February 19, several late-arriving members of the Executive Committee of the American Businessmen of Jeddah (ABJ) blamed their tardiness on unexpected traffic jams in central Jeddah. Executive Council member and banker Anees Moumina announced that crowds were surrounding banks, and he warned everyone to avoid the banks for the next several days. February 20-22 were the first days in which shares of Yanbu National Petrochemicals Company (YANSAB), could be publicly traded. YANSAB is the petrochemicals affiliate of Saudi Basic Industries Corporation (SABIC). The initial public offering of shares at SR 50 from December 17 to 29, which was open only to Saudis, was oversubscribed by some 300%, 8 million Saudis vying for part of the 35% stake in YANSAB. The first opportunity to trade shares set off an investment frenzy among cash-flush Saudi investors. Moumina said that a number of bank employees had actually been physically attacked by eager investors as the price fluctuated from an opening in SR 600's and rising as high as SR 750. By Wednesday, February 22, YANSAB had dropped to close at SR 573.

¶2. (U) Newspapers on Friday, February 24, reported investors were outraged to find that sales orders given when YANSAB was near 750 were not executed until a day or even two days later when the price had declined to about SR 610. Authorities blamed the market system being unable to keep up with the vast number of orders.

MORE IPO'S AND A BOOMING ECONOMY HEAT UP (OR OVERHEAT) THE SAUDI MARKET

¶3. (C) The current round of IPO's and impending privatizations, coupled with a booming economy in Saudi Arabia is fueling a very hot market. On February 22, the Tadawul All Shares-Index (TASI) broke through the 20,000 barrier, closing at 20,061.65. This week alone, the papers have announced several IPO's including those involving portions of SAVOLA Group and Al-Huta Group. Investors clamoring for stakes in these early IPO's have driven stock

speculation to levels that are irresistible to a cash-rich, but relatively unsophisticated group of investors. Some cautious sources have expressed concern that the market may be overheating and be in for a decline. Articles have appeared in the media warning Saudis to invest rather than speculate and offering training courses in what to look for in investments and what to avoid. At a social event of the ABJ held at the CGR on February 9, American citizen Jeff Gorman, an executive adviser at Bin Laden Group, confided to Pol-Econ Chief that in the last quarter, his mutual fund investments, the only form of investment available to foreigners, had increased by 16%. While celebrating every rise in stock prices, he confessed he was also wary that the trend could not last indefinitely, and was alert for signs that the bubble might burst.

¶4. (C) COMMENT: Share-holding is very wide-spread among the Saudi population and many state-owned enterprises and parastatals are being privatized which is an undeniably encouraging sign of dedication to the free market. Popular share-holding is consonant with the King's stated desire to develop an ownership society which feels it has a stake in the development of a free-market economy. But behind the exuberance, there is a fear that this boom cannot be sustained. New stock offerings are being prepared over the coming months and years, but the public wants in now, leading to a mad rush, such as cited above, and driving prices for the early offerings to unjustified levels. A sudden decline in the market could injure a significant portion of the Saudi population and undermine the King's effort to give the general population a stake in a free economy. END COMMENT

JEDDAH MUNICIPAL BUDGET RISES TO SR 660 MILLION

¶5. (U) In late January, Jeddah mayor, Engineer Adel Fageeh, announced that the new annual budget for Jeddah would be SR 660,113,000. This is an increase of SR 68,863,000, or

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roughly 11.64%, over last year's budget of 591,250,000. The mayor stated that the budget would provide for increased road maintenance and improvement to ease traffic congestion, maintenance of children's playgrounds, historical sites and graveyards, construction of new municipal buildings, and improving and maintaining city entry points. In reviewing the above, it should be noted that roads in Jeddah are in a deplorable state of repair with many large pot-holes. Traffic jams are also a fact of life. In "Old Jeddah" a number of historic buildings are in a state of near collapse and one did collapse partially in early December.

WOMEN QUIETLY MAKING INROADS IN ALL MALE FIELD

¶6. (C) In mid-February Abdul Latif Jameel Community Service Program, the local services charity sponsored by the Abdul Latif Jameel Group of Companies, announced that it will offer training courses in electrical maintenance, plumbing and cellular telephone maintenance to interested women, and including a promise of immediate employment after graduation.

Since women have never been allowed to practice these crafts before, this announcement is a tacit indication that women will now be permitted to do this work.

WOMEN MAY DRIVE AND MEN MAY DRINK IN FUTURE KING ABDULLAH ECONOMIC CITY

¶7. (C) During a recent conversation, an American employed by the chairman of The Bin Laden Group, which is a major participant in the development of Saudi Arabia's proposed King Abdullah Economic City project, told Jeddah Conoff that there is a possibility that King Abdullah Economic City (KAEC) will be a "free city" in which women will be allowed to drive and consumption of alcohol will be permitted. Some influential groups apparently believe that these "concessions" will be necessary if this project, which is a key element in the Kingdom's long-term development strategy

is to compete against Dubai. Another, Muslim, Consulate staff member had also heard that women may be permitted to drive in KAEC, but expressed surprise at the suggestion that the Kingdom would ever permit alcohol use. But the employee also conceded that KAEC will not be a reality for ten years, and anything could happen in the interim.

¶8. (C) COMMENT: The two preceding items suggest that the Saudi authorities are permitting, or not preventing, groups from instituting reforms quietly or in limited areas. This may result in reforms coming into practice without a national debate that would arouse the opposition of conservative elements. END COMMENT.

Morales